The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 3 February 2016

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
5th Meeting 2016, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Chic Brodie (South Scotland) (SNP)
*Patrick Harvie (Glasgow) (Green)
*Johann Lamont (Glasgow Pollok) (Lab)
*Richard Lyle (Central Scotland) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lewis Macdonald (North East Scotland) (Lab)
*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Nathalie Agnew (The Wee Agency)
Calum Currie (Portpatrick Harbour Community Benefit Society)
Sarah Deas (Co-operative Development Scotland)
Joanna Dewar Gibb (Screen Facilities Scotland)
Simon Fowler (John Lewis Partnership)
Professor Nick Kuenssberg (Scott & Fyfe Ltd)
Kelly McIntyre (Community Shares Scotland)
Andrew Pendleton (Durham University)
Karen Pickering (Page\Park Architects)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 3 February 2016

[The Convener opened the meeting at 10:15]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the fifth meeting in 2016 of the Economy, Energy and Tourism Committee. I welcome committee members; our witnesses, to whom I will come in a moment; and the visitors in the gallery, and I remind everyone to please turn off or at least turn to silent all mobile phones and other electronic devices to ensure that they do not interfere with the committee's work. We have received apologies from the deputy convener, Dennis Robertson, as well as from Patrick Harvie, who has to be at the Rural Affairs, Climate Change and Environment Committee but hopes to join us shortly.

Agenda item 1 is consideration of whether to take our session 4 legacy paper in private at future meetings. Do members agree?

Members *indicated agreement.*

Employee-owned Businesses

10:16

The Convener: Agenda item 2 is an evidence-taking session on employee-owned businesses and co-operatives. I thank our witnesses for attending. Earlier this morning, we had an informal presentation from Sarah Deas of Co-operative Development Scotland, setting out the background for today's session, and I thank her for that.

This topic follows on from the committee's inquiry into work, wages and wellbeing in the Scottish labour market, on which we published a report a few weeks ago. In doing that work, we had quite a lot of evidence suggesting that models in which there was a higher level of employee participation in the business were good for productivity and the broader success of the business and clearly improved the employee experience.

We therefore considered that the area deserved a bit more scrutiny. Last week, we had quite a successful round-table session on the question of social enterprises. This morning, we will look at the question of co-operatives and employee-owned businesses, which I stress are not the same, although there are clear parallels.

Before we get into the discussion, it would be helpful if we went around the table and introduced ourselves. I ask the witnesses to say who they are, where they are from and perhaps just a little bit about the organisation that they represent, as it will be helpful in setting the scene.

I am the committee convener and a Mid Scotland and Fife MSP.

Chic Brodie (South Scotland) (SNP): I am a South Scotland MSP.

Simon Fowler (John Lewis Partnership): I have an unusual title—partnership registrar for John Lewis—and play an independent role on the John Lewis board, which brings democratic vitality to a business with a particular ownership structure and aim of humanity in commerce. I am also here as chair of the Employee Ownership Association.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I am the MSP for Edinburgh Pentlands.

Professor Nick Kuenssberg (Scott & Fyfe Ltd): I am the chairman of Scott & Fyfe, which is an employee-owned company; I am an ambassador for Co-operative Development Scotland; and I am also involved in the social enterprise debate, given the hat that I wear as chairman of Social Investment Scotland.

Richard Lyle (Central Scotland) (SNP): I am a Central Scotland MSP.

Karen Pickering (Page\Park Architects): I am from Page\Park Architects, which has been an employee-owned business for two years now. We have 52 employees.

Lewis Macdonald (North East Scotland) (Lab): I am a North East Scotland MSP.

Andrew Pendleton (Durham University): I am an academic based at Durham University, and I have been doing research on employee ownership and employee share ownership for perhaps rather longer than I care to remember. I am also doing a major survey of employee-owned firms in the United Kingdom.

Sarah Deas (Co-operative Development Scotland): I lead Co-operative Development Scotland, which is the arm of Scottish Enterprise, working in partnership with Highlands and Islands Enterprise, that promotes business growth through co-operative and employee-ownership models.

Johann Lamont (Glasgow Pollok) (Lab): I am the MSP for Glasgow Pollok.

Calum Currie (Portpatrick Harbour Community Benefit Society): I am the chairman of Portpatrick Harbour Community Benefit Society. Portpatrick is a small community down on the west coast of Scotland, and we have just purchased the harbour.

Kelly McIntyre (Community Shares Scotland): I am programme manager for Community Shares Scotland, which received three-year funding from the Big Lottery Fund and the Carnegie UK Trust to provide support and advice to community groups and organisations and to help them through the process of setting up community benefit societies. We also help them with the community shares mechanism for funding projects and enterprises that they might want to take on at a community level, be that a community of place or interest.

Joan McAlpine (South Scotland) (SNP): I am a South Scotland MSP and a member of the committee.

Nathalie Agnew (The Wee Agency): I am the managing director of Muckle Media, a public relations agency, and director of the Wee Agency, a co-operative that contains a PR agency, a design agency and a website development company.

Joanna Dewar Gibb (Screen Facilities Scotland): I am director and founding member of Screen Facilities Scotland and business manager of Artem, a physical special effects company. The model for Screen Facilities Scotland is one of the consortium co-operative ones that some of the businesses present this morning are based on, and we champion the growth and aspirations of the facilities and service companies in Scotland's film and television production sector. We have 25 members and are growing; those members are vital to Scotland's production infrastructure and range from solo operators to companies with 100-plus staff. They service the practical and logistical needs of film, television and commercial production as well as those of the games industry, museums and live events.

The Convener: Thank you. Last year, the committee held an inquiry into the creative industries, and it might interest you to learn that we will be doing a follow-up session on that next week.

Joanna Dewar Gibb: We are aware of that. SFS submitted written evidence to the previous inquiry and will submit evidence for next week's meeting, too.

The Convener: I should say that we also have the official report, who will note everything that you say, and our team of clerks for assistance.

The session will run until about 12 noon. As there are quite a number of you round the table, it would be helpful if you made your points as succinctly as possible. If you want to contribute, just catch my eye and I will bring you in as best I can. We want to hear from you if you agree—or, even more, if you disagree—with something that has been said. Incidentally, you do not need to touch any of the sound equipment; it is all operated remotely.

I will start by directing a question to the witnesses from organisations that have been set up on an employee ownership or co-operative model. Will you give us a flavour of why you felt that model rather than a more traditional business model to be the right way to go? What have the benefits been?

Nathalie Agnew: As I have mentioned, the Wee Agency is made up of three members—a PR agency, a design agency and a web development company—all of which complement each other. Previously, we had worked on a number of projects informally together, but we faced a number of issues. With contracts, for example, who was ultimately responsible for ensuring that we delivered something to the end client? Where did the buck stop? Who was the point of contact? Who was looking after the administration? It was quite fortunate that we were able to test our relationship by working together informally.

When we found out about Co-operative Development Scotland, we approached it to explore the option of setting up a fourth entity, of which we would each be a member. It made a lot of sense to us, and it has helped us from a business development point of view. For example, when we go out and meet people, we pitch different elements of the business—elements that are not necessarily our own. It is all about the bigger goal of helping others to grow. Of course, it is also very commercial; it is very much based on making money as individual businesses and collectively as the Wee Agency.

The Convener: When you were getting set up, how important was the advice that you got from CDS?

Nathalie Agnew: It was really super. We were provided with one-to-one support. We had a strategy session in which we all sat together, explored the different options that were open to us and discussed the right approach to take; we got free legal support that allowed us set up our co-operative and ensure that everything was watertight; and we had a lot of support in coming up with a members agreement, which outlined, for example, who was responsible for what and what we were all committing to.

We have been in interesting times, because one of our members was bought out by a bigger company. At that stage, because of the strength of the members agreement, we had a number of options. The question was whether we wanted to work with the new company or whether we wanted to vote it out and bring somebody else in.

However, it has all gone really well and been a positive experience. We have had a lot more structure in place than we probably would have had, had we been doing this on our own. We have had lots of direction, particularly at the strategic level of where we want to get to and what we need to consider.

The Convener: Good. Thank you for that.

Simon Fowler: The John Lewis Partnership has been going in its retail form since 1864. Our founding member was John Lewis senior, who started up a shop pretty much where we trade at the moment on Oxford Street in London. He had two sons; one trained as a barrister and the other stayed in the business.

The story goes that John Spedan Lewis, who founded the John Lewis Partnership employee-owned model that we have today, fell off his horse in Regent's park and spent two years recuperating from a punctured lung. During that time, he reflected on how unfair it was that the family—his brother, his father and he himself—took home more than the employees who worked for them in their Oxford Street shop. They were silk merchants—one of the most successful, in fact, on Oxford Street.

Mr Lewis then came up with a model that was not pure altruism but which was about trying to develop a business that was commercially more successful than that of his competitors. One of the things that he felt was a key enabler was to ensure that employees—or partners, as they were eventually to be called—had a stake in the business and therefore felt emotionally and financially engaged and committed to trying to make it a real success. He had lots of arguments with his father as he tried to get the idea across to him, because his father did not agree with it; it was just not the done thing in Edwardian England. Eventually—or so the story goes—he managed to strong-arm some money out of his father, walked down the King's Road to Sloane Square and bought Peter Jones, a Welsh hatter's shop that was not doing well and which had been put up for sale. His father allowed him to run a different model in that shop while he worked in the main shop in Oxford Street, saying, "You can go and do your mad ideas in that bucket of a shop in Chelsea"—as he called it—"but you have to do a full day's work here in the family business."

In effect, what John Spedan Lewis set up way back then was the early version of the John Lewis Partnership as an employee-owned business. He said to his Peter Jones employees that, if they made a profit, he would share it with them; that was his first motivating position to them. Five years later, he was making a profit, and he introduced the profit sharing that exists today.

Depending on when we announce our profits, the first or second week of March is an extremely exciting moment for the 90,000 partners in the John Lewis Partnership. Nobody apart from the partnership board knows what the bonus figure will be, and it is announced by distributing brown envelopes containing a little disc with the percentage on it. Everybody receives the same percentage of their pay, because that was deemed by the founder to be the fairest way of acknowledging someone's contribution to the business. We choose different partners to open the envelope on their bonus day, and it all brings to life part of what employee ownership means for us.

Ten years later, in 1929, John Spedan Lewis put in place the first trust—we are a trust-owned, employee-owned business—but it took him working in the business right up to 1950 to develop his ideas in "The Constitution of the John Lewis Partnership", which contains seven principles. He wanted to leave a legacy to ensure that no one would forget why and how he set the business up. Our first principle, which is often quoted in John Lewis and is important to our business life, says:

> "The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business. Because the Partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards—profit, knowledge and power."

From 1929 onwards, John Spedan Lewis grew the business. He acquired a bunch of provincial shops from Selfridges just before and just after the second world war, when Selfridges was not doing well; and he acquired a grocer that was owned by a Mr Waite, a Mr Rose and a Mr Taylor. When it was brought into the business, Mr Taylor left and Mr Waite and Mr Rose continued running the business. It turned into Waitrose, which now has seven shops in Scotland. We have developed all sorts of things, such as our formal democracy, our knowledge sharing through a weekly publication called *The Gazette* and lots of benefits that flow from being a co-owned business.

10:30

Karen Pickering: We were quite inspired by the John Lewis model. About four years ago, our partners decided to go down the employee-owned business route. The previous partnership structure in our architect's practice, which was set up 35 years ago, had four partners and a very traditional business model; the partners were thinking about a succession plan, and they wanted to retain the culture of what is a very creative business.

It took us two years to get the employee-owned business set up. We had a lot of discussions, and Co-operative Development Scotland helped us, which was great. We included quite a lot of our employees in the process, and we realised that employee ownership was the right way for us to go.

Although we have been an employee-owned business for only two years, we have found that it has improved the ethos of the practice. The culture has not changed, but what we have now is very much a holistic model of working, in which we all contribute to decisions. We have a board of trustees, so the shares cannot be sold, and we have a level structure: all our younger and junior architects are on our finance committee or other operations committees, which means that we all contribute to the direction of the business. We are architects, not businesspeople, so when we started on our journey, we found it quite difficult to understand how to run a business—I think that the four partners did that by instinct. Over the past two years, however, we have learned more about business.

We have grown, too. When we started on this road, there were 35 of us; there are now 52 of us, and we find that our younger architects want to stay with our practice rather than jump ship and go to different firms. They can see a future in the business, and they can see that it will not be bought by a big multinational company. We are also very much a Scottish business, and I think that we retain our staff and our talent because of that.

In addition, our business model enables us to innovate and to investigate avenues of architecture that we probably would not have explored in a traditional partnership. We have a graphics team, which decided to investigate the graphics side of our design company, and we now have an interiors team, which we did not have previously. People have the opportunity to ask, "Oh, can I experiment in this direction?"

Like the John Lewis model, we have profit sharing, which is great. As our financial year ends at the end of November, we give our bonuses at Christmas, which is an extra incentive for staff. We do not give a percentage; depending on the year, we might give two weeks' wages. Obviously that could change, because we have been running for only two years, but the bonus is based on the profits that we have made.

We keep a little bit of the profit share for charitable work. A number of our architects are interested in helping communities abroad, and we send people out to help build housing that is needed, say, or a soup kitchen in Africa. We support a range of charitable ventures.

From a personal point of view, I can say that when you know you own a part of the business you work much harder. When the partners owned the business, we just worked for them. That was fine—they were great partners—but working for yourself really incentivises you. Even little things, like deciding not to print out some drawings because you are paying for the prints, help with the day-to-day running of how you work.

When we told our clients that we were becoming an employee-owned business, they were quite impressed. They thought, "Wow. This company cares for its employees, so maybe it will care more about our project and our staff." I think that the employee-owned business model has helped us get more business; indeed, the fact that we have increased our staff by so many in two years shows that we are getting more clients and more work.

The Convener: Thank you. That is fascinating.

Andrew Pendleton: I can tell the committee a little about the employee ownership survey that my colleague Andrew Robinson at the University of Leeds and I are conducting.

Our aim is to look at the whole population of employee-owned firms in the United Kingdom. We estimate that around 250 firms currently meet our definition of employee ownership, and just under half of them are in the survey; indeed, most of the witnesses from the employee-owned firms represented here have contributed it. Currently, we estimate that around 240,000 people—or around 0.8 per cent of employment in the UK—are employed in such businesses.

One thing that has emerged in the survey is that employee ownership comes about in different contexts and for different reasons. We find that around a third of cases come about through business succession, where a strong motive is to protect the company from falling into the hands of competitors; around a quarter involve motives similar to those expressed by Karen Pickering, whereby a partnership seeks to widen its ownership to a broader number of people; around 15 per cent come about through privatisation; and 23 per cent are from start-ups and divestment. A very small percentage—1 or 2 per cent—arise from business failure.

As for the percentage of such businesses by sector, 20 per cent of them are in the manufacturing sector; getting on for 50 per cent are in professional and business services; and somewhere between 15 and 20 per cent are in what might be called personal services, which are often ex-public services. Currently, there is none +in transport or hotel and catering. The transport sector is quite interesting; if we had done the inquiry in the early 1990s, we would have found the dominant group of employee-owned firms to be in that sector, because that was when the bus industry was privatised.

I realise that that was a little drier than the stories that my colleagues have been able to tell, but I hope that it gives members a portrait of the sector as a whole.

The Convener: Thank you. I am keen to hear the stories of how Joanna Dewar Gibb and Calum Currie arrived at their models. Does Joanna Dewar Gibb want to start?

Joanna Dewar Gibb: As a consortium co-operative, Screen Facilities Scotland was in some ways born out a lot of threats to our sector. Perhaps companies felt isolated or issues were affecting their business that they could not tackle singly, and perhaps they did not engage with policy setters and decision makers, for example, in such a way that the correct routes to funding could be achieved and the support to the sector could be guaranteed.

Pulling together under the model allowed us to start to address that weakness in the first instance. I firmly believe—as SFS does—that people need to get their own house in order to move forward and make progress in their sector. The model that CDS offered, which we came across through the CDS prize, seemed to be so efficient a model to get under way that it was quite compelling. Had we started to get involved in legal ventures and joint ventures, for example, I do not think that we would have got off the ground, but the model that was presented and all the background and support that CDS gave us in order to become established set us off on a swift course in which we very quickly started to achieve a number of the goals that we wanted to achieve.

We were also quite quickly able to plug in collaboratively with Creative Scotland, which is, of course, our main public body for the creative sectors, and Scottish Enterprise and Scottish Development International. As a group, we have benefited from being able to present our case more formally and in a more rounded-out way with lots of different viewpoints, but also in a distilled way, so that those who have to decide whether they can support us and give us funds and whether we can join in some activity that they are already doing can make quicker and more effective decisions.

I will give a couple of examples. On the diplomacy and advocacy side, we are now involved in a lot of the sectoral scrutiny that is going on in the film business. I do not need to touch on that further, because another Scottish Parliament committee deals with that. We have been supported by Creative Scotland to engage with UK Screen, which allows us to have a combined voice in Westminster through the vehicle. That means that we have a foothold and can speak quite loudly at both ends of the country.

We have worked with Scottish Development International to go to international trade events such as the IBC conference. Next month, we are going to the game developer conference in California. Those mechanisms existed previously, but our member companies perhaps did not know that they were there, did not know how to engage with them effectively or did not know how they might be able to afford to go. Now, we can share costs or provide grant support to achieve those end goals for member companies.

I heard one of the really compelling arguments for our model when I first went to a presentation about it at which it was described as a daisy, with a consortium in the middle and the member companies on the outside like petals. When it comes to business, that means that each company remains distinct and its brand—who it is and what it does—is not compromised. However, having the consortium in the middle allows any combination of those petals to pull together to try to generate more work either just for the companies that are targeting that work or for the wider membership.

Working on location for film, television or a commercial involves an enormous collaborative effort. With projects of any nature where our member companies have already had collaborative communication with the clients and then we all turn up delivering very disparate and different services, the clients—especially international clients—can see when they land here that Scotland is joined up, cohesive and professional and has the services that they want. That is where we will look to drive business growth for the member companies in tangible project turnover results. Of course, there are a number of areas that we still need to address and we are working on a number of sectoral weaknesses, but the model that we are part of has allowed us to plug in in a much more effective, professional and businesslike manner.

The Convener: Mr Currie, how did you arrive at the model that you use at Portpatrick harbour?

Calum Currie: Prior to the setting up of Portpatrick Harbour Community Benefit Society, a charity was in place called the Portpatrick Harbour Trust, which was a company limited by guarantee with charitable status. The trust tried to purchase Portpatrick harbour and got into rather severe financial difficulty. Consequently, when the community of the village found out the underlying terms, it decided to move on from that and form the community benefit society. We engaged with third sector bodies, which advised us and led us to Community Shares Scotland, which then advised us to build a new model, a community benefit society, that would gain charitable status with the Office of the Scottish Charity Regulator. The model did not exist at the time.

We went on to raise £100,000 in about three weeks by selling community shares. We had a very large oversubscription and a lot of interest. The model has been very successful. The avenues of finance that we have used were not open to us with the previous model. It is fair to say that, if we had not been able to form that community benefit society, gain charitable status and move on to community shares, Portpatrick would have lost its harbour, which would have been an absolute disaster. Now, we have a bright future. We have 560 member shareholders, all of whom are fully involved and who want the harbour to go the right way. We are improving the harbour, which has not really seen much change since the mid-1800s—it has one water spicket, and that is it.

We are embracing the Community Empowerment (Scotland) Act 2015. There is a small strip of land behind our harbour that we are looking to take over from the local council. As far as the council is concerned, it is a bit of waste land, but it is very valuable to us, as it will allow us to put in toilet and shower facilities for the modern sailor. We do not want to spoil the charm of the old harbour; we want to retain the skyline, so instead of building up, we would like to build into the hill and keep the area nice and charming, as it should be.

10:45

The Convener: Thank you very much. As a matter of interest, who was able to buy the community shares that you sold? Were they sold to people who were living in a particular geographical area, or were they sold more widely?

Calum Currie: Anybody on planet earth could buy them—and they did.

The Convener: So they were not bought purely by people who were living in Portpatrick.

Calum Currie: No. Among the buyers were people from Germany, Bermuda and Canada.

We sold more than a third of the shares to local people; we live in a small population of about 550. About another third went to extended family or people whom I grew up with who have moved away, for example. The other third was made up of people who had a genuine interest in helping a small community, people who came to the area on holiday and loved it because it is picturesque, and sailors and yachtsmen.

The Convener: So you raised £100,000, more or less. Have you raised more money subsequently, or has that been enough for you to do the things that you want to do?

Calum Currie: That has been enough. The amount of money that we had to raise to bring the harbour into local ownership was £75,000. It was identified by co-operatives that, with a business plan, we could raise a further £25,000, taking us up to £100,000, that could be used to help us to kick-start the regeneration. The harbour has not really received any investment since the mid-1800s. We are now actively planning to put in facilities. We will chase grant funding and will engage more services.

Kelly McIntyre: Although Portpatrick Harbour Community Benefit Society had a wealth of investment from all over the world, there are many different ways in which community groups can choose to write their rules, which are similar to constitutional documents. They can say that they will accept investment from anywhere and everywhere or that they will work within certain parameters to ensure that they can access certain funding or certain legislation. A constraint can be put in place, as was done in relation to Cultybraggan camp 21, which includes self-catering accommodation and a heritage centre; the Comrie Development Trust said that 60 per cent of investors had to come from the local area, and it defined what that was.

The community benefit society model is a very robust yet nimble way of attracting investment and keeping control in a certain area, if that is what is required, or bringing in a community of interest from further afield and shoring that up. It is a very useful way of operating that can be utilised in many ways.

The Convener: I welcome Patrick Harvie to the committee—good morning.

We move on to Gordon MacDonald.

Gordon MacDonald: I want to return to a point that Karen Pickering made. If I picked you up correctly, you said that when you took over the business, you had no experience of managing or running the business. What support did you get to enable you to get over that hump? How did you finance the takeover?

I also have a question for Calum Currie. There seems to be quite a good appetite for the community share model. In my constituency, the Harlaw Hydro scheme was oversubscribed. How would you have filled the funding gap if you had not been oversubscribed? Was there enough support out there to make up that gap?

Karen Pickering: On the question of how we funded what you might call the buyout of the partners—I should say that we are still paying them at the moment—we agreed a financial value for the business and that, over five years, a portion of the profits would be paid to them for the buyout. We did not really have to raise funds initially; the fact that we are obviously making money while we are running the business has provided a gentle means of allowing the partners to get the value for the practice and our being able to afford it.

During the recession, we had a very bad experience with the banks. I do not know whether I am allowed to say this—

The Convener: Oh yes—please do.

Karen Pickering: There was a time when we did not get a salary; we had to say to the staff, “We cannot pay you.” The banks were just not going to give us any more money. That made the partners realise that they had to find a business model that meant that they did not have to rely on the banks. Luckily, now that the recession is over, the construction industry is much more buoyant, and we have been able to build a buffer that we hope will mean that, after that bad experience, we never have to go back to the banks and say, “Can you increase our overdraft?” That was how we financed the employee-owned purchase of the business.

As for how we learned about managing the business, when we started this process four years ago, we employed a private business coach. I know that that sounds a bit American and corporate, and he was quite expensive, but he was invaluable in explaining to us how to run the business from an operational point of view. We were used to designing and building buildings, but he told us how to organise the structure of the business, and we kind of devolved all the responsibilities. In the past, the partners decided everything, but for the employee-owned business route, we thought that we would all share the responsibility, that there would be no board of directors making all the decisions and that we would have different groups to discuss and debate the business and its way forward. It has really been an evolution; I think that, because the process has taken four years, no one has really noticed that we have actually changed a lot. We have learned a lot about business; indeed, we must have learned something, because we are now quite profitable and are employing more members of staff and the geographical reach of our architecture is widening. That model is working for us.

In fact, we developed our own business model. We did not take some model out of a textbook; we evolved our own, and we have a little document that every new member of staff gets and reads in order to understand the different layers of management.

The Convener: Thank you. Calum, do you want to answer Gordon MacDonald’s question about funding?

Calum Currie: Sure. It is fair to say that the previous trust in our community had, as I explained earlier, got itself into financial difficulty, and there were no real avenues left open in that respect. That was where the community benefit society model came in for us.

The agreement that the previous trust had entered into had, in the short term, led to a default that could have led to the harbour being repossessed in a very short period of time. It was obviously quite an ugly scene, but then Community Shares Scotland brought in Social Investment Scotland, which provided us with temporary bridging finance of £75,000. That money was obviously conditional on our raising a community share offer. We had good feedback that there was a fairly strong appetite for that, and it is fair to say that coming from where it did and doing as well as it did the model not only worked for us but can definitely work for other people.

That model, in which people who buy shares do not have to be local to the area—basically, anyone anywhere on planet earth can do so—works very well. We used to think that our community was small, but we are actually quite a big community; in fact, it is worldwide. After all, the world is quite diverse. Why does someone who lives in Barbados want a share in Portpatrick harbour? Guess what—he goes on holiday there, likes the place and wants to support it. That is the sort of diversity that the model not only has offered our group but can offer lots of other groups, should they be lucky enough to take it on.

Professor Kuenssberg: I want to return to the points that Karen Pickering and Kelly McIntyre made about the variety of structures that can be set up. No one structure fits all; indeed, one can write one's own rules—literally—as one wants.

The John Lewis model is very straightforward: there is one owner, which is the trust. There is also a model in which every individual has a share, and there is a hybrid model, in which the owners are a trust and individuals. In the case of Scott & Fyfe, the employee benefit trust owns 93 per cent and the employees—all 100 of them—own 7 per cent. I would almost say that there is something romantic about the idea that employees can buy shares in the company, rather than just have them given to them or have a right to them through the trust model.

In Scott & Fyfe, we decided first that all employees would be shareholders. We gave each of them £500-worth of shares. We went down into the profit share model as well, and we decided to have a profit share scheme. We said that half of that profit share would be paid in shares. We also have a savings investment scheme, whereby under the legislation people can buy up to £3,600-worth of shares a year out of their weekly or monthly pay. The benefit of that is that people do not pay national insurance or tax through PAYE—pay as you earn. Depending on one's tax rate, the £3,600 actually only costs something like £2,500 or £2,700.

There is also the possibility of awarding partnership shares in line with whatever scheme one cares to devolve. We award according to our results, so if we have very good results we will give additional shares to those who are buying shares. Under the legislation one can give up to two shares for each share that is bought, which means that if a company is doing well, someone could acquire up to around £10,000-worth of shares per year at a net cost of about £2,600 or £2,700. If one assumed that the company will perform in line with employee-owned company norms of 4 or 5 per cent productivity a year, one would hope to see that share price increasing. Over a period of 10, 20 or 30 years—which may be the period for which people work for the company—that can become a significant equity pot.

We sold the scheme to employees by pointing out that their national pension would not see them through life. We were going to sort out the company pensions; we had defined benefit and defined contribution schemes, which we brought much closer together. As a result of the other arrangements they would also have an equity pot, which could be many tens of thousands of pounds, or even more than £100,000 if all works well. We sold the scheme on that basis.

We must not get carried away by employee ownership. It is not a magic bullet. One has to do all the other managerial things—innovation or what have you—but it is a phenomenally rich facilitation process that I would commend to a series of people.

Chic Brodie: I was in Portpatrick just a few months ago, and I still do not know how you fill that harbour with just one spicket. Never mind.

I will follow on from the point that Nick Kuenssberg just made. I had a similar circumstance with a company in Fife. Although financial ownership was important in that case, with people who left the company being required to sell their shares back to the company—which, in effect, will add to their pensions—there is more at issue than just the financial side. There is also an issue around the involvement of employees in the development of processes or products.

I will put this to Sarah Deas initially—I asked this question earlier when I mentioned the collaborative futures seminar or conference last week. A film that covered six companies in Germany indicated that they had full employee ownership, which extended to the financial and managerial side and decision making. What involvement have you found? What encouragement is there on that side of ownership? It is not just a matter of people thinking, "We own shares," and that is it.

11:00

Sarah Deas: As far as employee ownership is concerned, our service involves raising awareness. The market failure is the lack of understanding of the model. In raising awareness, we are sharing the types of stories that we have heard here today about how the model works.

As regards support for people who transition into employee ownership, our role is to provide initial advice, to undertake feasibility studies and to support implementation. Thereafter, most importantly, as you have highlighted, our focus needs to be on how to embed the culture of employee ownership. We do that in a number of different ways. There is a growing number of employee-owned businesses, and learning from one another is a key aspect. The Employee Ownership Association has established regional groups across the UK. We were one of the first in Scotland. That allows for peer support between employee-owned businesses, not just at a leadership level but throughout the business. That is one of the dynamics of employee ownership: everybody is an owner. It can be a really vibrant learning and sharing experience.

There are private sector consultancies that are specialists in this area. Many employee-owned businesses draw on their expertise. As for the public sector, in Scottish Enterprise and Highlands and Islands Enterprise, we have a wide range of services focused on leadership and organisational development. Progressive workplace practices are very much part of those. From my perspective, those services play two roles: they raise awareness of that type of model, and they provide support for businesses to enhance their employee engagement. That approach is clearly important to all businesses, and it is an absolutely key ingredient in what makes employee ownership work.

Chic Brodie: I put this to Simon Fowler—his is clearly a large company—and also perhaps to an individual who runs a small company. How do you achieve employee involvement in decision making?

Simon Fowler: From a John Lewis perspective, it starts with a very strong governance approach, and it flows through from that. We have what we would describe as formal democratic governance arrangements, and then there are informal arrangements.

The formal ones take the form of three governing authorities within John Lewis. When the founder handed the business over to us, he set up the first governing authority as the chairman. In our business, the chairman is the chief executive and chairman, and he or she effectively has decision-making rights over anything that he or she wants in the organisation.

In order to temper that level of power, the founder put in place two other governing authorities. One of them is the partnership council, which is a membership body of 80 members who are elected from among the 90,000 partners in our organisation. They are elected by the people who work in the organisation to represent them for a three-year term. That is our internal parliament. That body meets the chairman at least twice a year—it actually meets more frequently—for what we call the holding-to-account session. That session is just after the full-year and half-year results, when our owners are keen to understand how our business has performed under the leadership of the people who, like the chairman, are leading the organisation. The council votes on the chairman's leadership. If two thirds of the council were to vote against him, he would be removed from office immediately and a new chairman would be found. He holds his power lightly.

The third governing authority is the partnership board. That is a traditional sort of board in many contexts, and it is chaired by the chairman. He appoints five members who sit on the board by virtue of their executive position within the organisation. The partnership council, as the other governing authority, elects five members to sit on the board. They could be anybody who works in our organisation. Power is therefore held in a very balanced way.

You could argue that, as the chairman is the individual with the casting vote in a situation in which there are five versus five balanced equally, he could cast his vote to decide something in a way that was not in favour of the elected representatives, but as he is held to account twice a year, he always holds his power very lightly. Those are the formal governance arrangements within our business.

Informally, it is very much like any other organisation. The power of the line manager and leadership in an organisation is critical in making sure that employees feel engaged, empowered, motivated and that they have a sense of purpose and wellbeing. What I find is that it is more consistently delivered in the employee-owned sector. Our informal networks operate through our line managers, who want to make sure that they deliver an ownership model in John Lewis in a way that is enhanced, because they know that they are, in effect, an extension of the chairman. Therefore, when the chairman stands for his accounts session, he knows that he is being held accountable not just for what he has done, but for what all the line managers—who are essentially extensions of him—have done in the line of duty with their partners.

Therefore, there is an informal but important element of our governance structure, as well as a formal governance part of it, which influences the way in which it all operates.

The Convener: Does somebody else want to contribute on the same point?

Nick Kuenssberg: I am sorry if I gave the impression that it was all about finances.

Chic Brodie: No, no.

Nick Kuenssberg: In our structure, we have an employee-elected director with full rights to all knowledge. That director is one out of a board of six. There is monthly access to management, when the chief executive talks to everybody. We also have on-going training on understanding company issues, which is very important. Also, we have reduced directors' terms from three years—which is the norm—to two years. Every two years, each director is up for re-election at an annual general meeting at which all employees are present.

An argument could be made that the trust is in control, so it is in the power of the trustees, but Jacqui Martin in the public gallery knows about the long debate that we had about how to balance the trustees. In effect, if 100 employees out of 100 say that they do not like a director and do not want to re-elect them, the trustees would be very foolish to say that the employees do not know what they are talking about and that that director should continue. From that point of view, there is genuine democracy.

The Convener: Andrew Pendleton was keen to come in.

Andrew Pendleton: Yes. I will add to what was said earlier with some more statistics—forgive me.

Research from the UK and the USA over many years has suggested that, if your employee-owned company is going to be effective, it is very important that the employees have a strong sense of ownership. The two factors that most strongly influence that sense of ownership are, first, a sense of involvement in decision making and, secondly, that people get some financial outcome in terms of profit share.

I have a brief second point that follows on from Nick Kuenssberg's point. If we look at places where employee ownership has come about through business succession, we find that about 40 per cent have one or more employee directors on the board, and about a third have what could be called an employee shareholder council—a bit like the partnership board at John Lewis.

Finally, I think that training is a particularly important aspect of employee ownership. There are all sorts of incentives that mean that employee-owned firms can devote more resources to training. In the survey, we found that 83 per cent of employee-owned firms say that they devote more resources to training than other comparable firms.

We can see why training is more likely to happen because, from the individual employee point of view, they are getting a promise from the company that if they invest their body and soul, as it were, and their development in the company, they will get some pay-off. Equally, from the company point of view, taking into account that employee turnover tends to be lower in employee-owned companies, they can devote resources to training with greater security, because those trained employees are not going to disappear off to a competitor. It is a virtuous circle that promotes and facilities high levels of training in employee-owned firms.

Kelly McIntyre: Community organisations are enterprises, so when we talk about community share offers and community benefit societies, like all employee-owned organisations, they are very much held to account, and engagement is mission critical to that onus. A strong business plan has four strands. Everyone will know this as well as Calum Currie does, but good governance and very good engagement are needed before an offer is put on the table. People will then choose to invest and become member-owners.

We have statistics from some of our consortium partners, which include Development Trust Association Scotland and Rocket Science. Statistics from the community shares unit down south—the figures are UK-wide, but we have seen them proven in our eight shares offers here—show that more than 34 per cent of those members who are member-investors turn up for AGMs. Many enterprises—community or otherwise—would be excited to see such numbers. We also see that more than 32 per cent then go on to volunteer their time or skills after the share offer is completed, which is different from that early-stage excitement when all the froth is happening, and once it has happened, it sort of trickles away. In other words, is an on-going process.

We see a similar trend, but on a smaller community level. That has a carry-on effect and it expands out the way for more innovative things to happen in both the communities and the business world that those people are part of.

Joanna Dewar Gibb: I will give an example from the consortium co-operative point of view. Our structure is kept flat, the voting system is one member, one vote, and our activities vary widely in the amount of effort and collaboration that are required to achieve them. In order to avoid having large meetings to push through certain things that we need to do, we have the wider membership group. We also have the working group, which is pulled from the wider membership group. Within those groups are companies, so there are pools of experience and talent that can ebb and flow depending on what is on the table that needs to be sorted out—whether that is on the promotion or advocacy level, business development or production tendering, there is a large pool of people to use. We put them into the middle and we have a working group.

However, none of that is exclusive. For example, it is not the case that if a person is on a working group for a particular period, no one else can come; at any point, any member can come to a working group meeting. We are just trying to make it a small group in order to push things forward. We would not want to get into a situation in which the group was too unwieldy to make decisions. The working group turns over every year.

Kelly McIntyre mentioned attendance records. Our AGMs are held annually, and we get almost 100 per cent attendance. We typically get at least one person from each company coming to the AGMs. That is the point when people can say, "I've had a quiet time on SFS last year because I was too busy working; this year, I need to get stuck in because the issue is one that I particularly want to get involved in." They may then come and volunteer their services for that year on the working group.

The structure is fluid and flexible, because every one of our companies is working in an unpredictable sector—the level of work is extremely unpredictable, variable and geographically dispersed. I cannot expect my members to turn up if they are working in northern Scotland, London or abroad.

The model is completely different from the employee-owned model that is being described, but it works very well for what we are trying to achieve.

Kelly McIntyre: It is similar with community shares and community benefit societies, where it is completely democratic, with one member, one vote—no matter how much you have invested, everyone has an equal say and the community is then elected from there.

11:15

Lewis Macdonald: I have a couple of lines of questioning that are related. I clearly know Portpatrick less well than some of my committee colleagues, but I am interested to know whether the seller was willing or unwilling.

The wider question from that is for Sarah Deas as well as Calum Currie. How far can the development of community benefit societies support community rights, such as a community right to buy, in circumstances in which assets are being neglected or not properly used? Is that close to the model that you have developed at Portpatrick? Is there a wider application that could be supported across Scotland?

Calum Currie: The harbour was in private hands for many years. Prior to the trust attempting to purchase it, it was owned by a property investor who was based in Jersey and who, I can assure you, did not care much for our community.

Moving on from that, the community benefit society model offered us options and a flexibility that we did not have before. We were talking about governance and the responsibilities of trustees, and I have seen that in action for real. We had an extraordinary general meeting of that trust and 160 of the community turned up and politely asked eight trustees to vacate the building when they heard what had been done. You could not write it.

We inherited a negative situation in which a commitment had been made to pay £350,000 for something that had not been valued; its value stands at £75,000 today. That shows the negativity that we had to overcome. The community was not fully consulted prior to that and we did not know that until that EGM; I think that the actions that were taken speak clearly for themselves. We took the positive way and began to explore any available option. It is fair to say that, after quite an exhaustive search, one model stood out, and that was the community benefit society.

The support that we got from the third sector, especially Community Shares Scotland and co-operatives, was second to none. I seriously commend them because, without their help, who knows what would be happening in my village?

Kelly McIntyre: What is exciting about the community right to buy and land reform asset transfer pipeline that is happening now with the new Community Empowerment (Scotland) Act 2015 and the Land Reform (Scotland) Bill is that the Scottish Government has had the foresight to include community benefit societies as legitimate governance bodies through which those legislative avenues can be taken. As the committee will know, previously it was only companies limited by guarantee that could do so.

Now, groups such as Portpatrick's can use the legislation to their benefit. That will make an exciting and engaging offer for groups across Scotland. We will see a lot coming through the pipeline once the guidance comes through. We are already see a lot coming through the pipeline, but when you can show that you have a community, whether it be of place or interest—in this case, it is a community of place—that has 500 members, including however many people from the local community, it helps to leverage movement among those who might not be so keen to sell. Sometimes it means that you do not have to use the legislation, because it can be seen that there is a real community desire and need, and the asset will be kept in trusteeship for the wider long term. However, the legislation is still very useful and has been brought up to date to include community benefit societies.

Lewis Macdonald: That is interesting and useful. I can think of at least one set of constituents with whom I will discuss Calum Currie's experience because it is relevant to them.

I am also interested in exploring situations involving business failure. I take Andrew Pendleton's point that business failures make up a small proportion of the total of employee-owned businesses, and I completely accept that employee ownership should be for companies that can grow and prosper rather than for unsuccessful companies. However, I highlight the recent experience in Scotland, where the steel industry is in deep trouble. In France, the law gives employees first right of refusal, and employees in one particular case set up a successful steel business as a result of that. I am interested in hearing, particularly from Co-operative

Development Scotland and the enterprise agencies, about the context and the legislative position here. I would like to know whether, and in what ways, Co-operative Development Scotland is drawn in by Government and the enterprise agencies when they are facing a situation with a failing business in which people's jobs are at risk, and whether an employee right to buy—like the community right to buy—might strengthen the position of people in such circumstances.

Sarah Deas: An employee right to buy puts the employee ownership model on the radar, and that is an attraction, but there must be a viable business. That goes back to the issue of the commerciality of the business. Employee ownership offers the motivation and engagement that may, in difficult circumstances, enable a business to reinvent itself and become commercially viable again. However, there must be a market and trading circumstances that allow the business, on whatever model, to survive.

Lewis Macdonald: At present, when the Government sets up a task force as it did with Tata Steel or Young's Seafood in Fraserburgh, what is your role? Are you formally consulted or actively engaged in discussing options with ministers and the enterprise agencies?

Sarah Deas: Yes. Our being part of Scottish Enterprise and Highlands and Islands Enterprise brings the model to the table. Although I may not have a place at the table myself, my colleagues would draw me in if there was an opportunity that we could help to progress. The PACE—partnership action for continuing employment—team is another arm that would draw us in as appropriate.

Lewis Macdonald: In recent months, during which a number of those task forces have been set up in the event of businesses being in trouble, have you been drawn in? Has your input had any consequences or positive outputs in any of those recent cases?

Sarah Deas: Yes. We have certainly been on the radar, and I have spoken to colleagues who know that we are ready to respond if they feel that the model could be a solution. In some of the cases to which you refer, discussions have not progressed to that stage, but there is certainly willingness and expertise available to be drawn in if that was felt to be appropriate.

Lewis Macdonald: That is very helpful. Do any of the witnesses have any further comments on the subject?

The Convener: Joan McAlpine has a follow-up, and then Simon Fowler wants to come in. We will start with Joan.

Joan McAlpine: Moving away from the crisis situation to which Lewis Macdonald referred, and talking about businesses that are viable, businesses in the part of Scotland that I represent tend to be smaller and would therefore go to business gateway as their first port of call. To what extent does Co-operative Development Scotland liaise with business gateway, and how confident are you that it is pointing potential employee-owned businesses towards the different models that are available and that you are promoting? Is that option being promoted enough through business gateway?

Sarah Deas: Our model means that we act as a small core team that works through other people to get a multiplier effect. We are related to Scottish Enterprise and Highlands and Islands Enterprise, but business gateway is absolutely part of the engine to draw our services to the attention of businesses.

We provide awareness raising and training to front-line advisers. Two of the local authorities, Glasgow and Edinburgh, are co-operative councils, so they are committed to the co-operative enterprise model. We are working intensively with those business gateway teams to ensure that they have an understanding of the models and can draw on us when required.

Joan McAlpine: What about other parts of the country? In rural areas, such businesses could have a transformative effect on a community; we have seen the success in Portpatrick, for example. Have you done any surveys that indicate how far business gateway is on board in communities around the country?

Sarah Deas: There are 32 local authorities and associated business gateways. We aim to ensure, as far as we can, that everybody understands our services. It is a challenge, but we are here. We try to get as much traction as we can to ensure that the front-line advisers with the gateways, as well as those in other professions—professional advisers, lawyers, accountants and bankers—are aware of our services, because often they are the trusted advisers that a business might draw upon.

Simon Fowler: I would like to support and build on what Sarah Deas said. The conversations that we are having are around a movement. It is well known in some areas and less well known in others. Some of the totemic stories that you hear about successes are very helpful in bringing to life exactly what we mean by employee ownership, because the model is an unusual one. According to the research that we have done, employee-owned businesses account for about 5 per cent of the UK's gross domestic product, so it is a relatively small share—but it is growing at a rate of about 10 per cent a year.

One thing that is very important is political commitment to ensuring that there is awareness among professional advisers, so that when options are being put on the table for businesses, and when businesses are considering a potential crossroads in their future, the options that they consider cover all sorts of models, including employee ownership. Whether those professionals are tax advisers, legal advisers or accountants, we have to make sure that their knowledge of the model and their confidence in speaking about it are as good as they can be. Often they do not mention the model because they are not confident, and if they are not confident, they will not go there. There are undoubtedly missed opportunities when that happens.

I applaud the Scottish Government for dealing with the model. This sort of event is very important for the movement and for making sure that people understand and get behind it. It is not the only way of doing business, but it is an important way of adding to a plural economy and making sure that there is diversity and a rich tapestry in the way that we orchestrate everything that we do.

I would like to build on the notion that employee-owned businesses are always successful. They are not, and sometimes they come up against challenges and difficulties. One thing that members of the Employee Ownership Association have experienced, however, is that when they face difficulties, they have the benefit of being able to take decisions for the longer term. They are not driven by the short-term needs of shareholders who are breathing down their necks. They are in it for the long term. Sometimes those longer-term decisions are counterintuitive but are the right decisions to keep a business in operation. We heard about one organisation that was having difficulties and did not pay their people, for example. John Lewis had a similar situation, in which bonuses were not paid and people gave a week's worth of salary back, just after the second world war when things were difficult. Employee-owned businesses have the ability to make counterintuitive decisions and to involve people in them.

I come back to my first point, which is that this is about a movement, and it is important that as many people as possible understand it, so that they have the choice to go into it should they feel that it is right for them. It will not be right for everybody, but it is such a shame that people do not know that the choice is there when they come to a crossroads. Sometimes that choice would be the right one for them, and it might just be the lifeline that they need.

The Convener: Thank you. I should just say, for the record, that this is not a Scottish Government event; it is Scottish Parliament event. The two are easily confused.

Simon Fowler: I beg your pardon.

The Convener: Before we leave the subject, Lewis Macdonald raised an interesting point about business failure being a catalyst for change. Nick Kuenssberg, is it realistic to expect that employee ownership can be a route out for a business that is going into administration?

Nick Kuenssberg: I endorse what Sarah Deas said: there has to be a commercial case, and usually the problem is lack of cash. Unless you have an extended community that can produce a pile of cash, as in Portpatrick, employee ownership has to be matched by a business plan that people believe in and are going to undertake. Otherwise one is trading with a false prospectus. In most cases, unless there has been some crass bad management, if a company is going bust there are probably quite good reasons for it. As I said earlier, employee ownership is not a magic bullet and a lot more has to be developed.

11:30

Scott & Fyfe, which operates in a very difficult industry, is not surviving just because of employee ownership. Rather, we are surviving because of a huge effort that was made to change the business model and to embed innovation at the core of the company. Those members who visited the company will have seen what we do. Both things have been necessary.

The Convener: One of the many Scottish Government task forces that I sit on is the Fife task force that was set up to deal with the Tullis Russell failure. Tullis Russell was an exemplar of employee ownership, so it is not always a panacea.

Nick Kuenssberg: It is an impossible business sector to be in.

The Convener: An impossible trading situation.

Johann Lamont: Sometimes it is not about business failure, but market failure. For example, as a young woman, the late Helen Eadie MSP set up a nursery co-operative in London. The lack of such a service was not because there was no need for it, but because no one had ever thought that such a service could be provided in that way.

I am interested in whether there is rigour in the opportunities around co-operatives, particularly community co-operatives, which create economic opportunity as well as social opportunity. Community co-operatives can regenerate areas. That is why Co-operative Development Scotland was initially under Scottish Enterprise when it was first established, because it was seen to be an economic issue. It was not just about hugging communities; it was about regenerating them.

Does Sarah Deas think that now is the time to review the role of Co-operative Development Scotland to ensure that there is that rigour and that we take in housing, for example? Housing was deliberately excluded because of the existence of Communities Scotland as an advocate, but no now agency argues a co-operative model for social housing. Such a model has rather fallen by the wayside, although there have been fantastic examples. Do you have a view on that?

To what extent is there a responsibility for advocating co-operatives at across Government portfolios? I know that people who want to establish renewables co-operatives have found it difficult to access grants and so on. Is that a further issue?

Sarah Deas: I will pick up each of those points in turn. SE and HIE—you must remember that HIE also has a community remit—focus on enterprise in all its forms, including community enterprise. Recognising the potential of the community shares model and that we are as resource-constrained as any business, we came together with the Development Trust Association Scotland to seed the idea of community shares Scotland. That was a couple of years ago. Community shares Scotland is funded by the Big Lottery Fund and the Carnegie UK Trust. It is a three-year initiative and is halfway through. I sit on the CSS steering group and we now face a question about what happens next. There is a growing demand and need for support in relation to community co-operatives and community share offers. That is an issue that the steering group will face, along with our partner organisations.

Housing is not our core expertise and has not been a focus for us in recent years, as Johann Lamont says. One would need to consider what would be the best organisation in Scotland to front that and where the specialist expertise would bed into it. Those do not need to be one and the same, but it is about accessing the right skills for the need and the time.

On renewable energy, we work closely with the local energy Scotland consortium and the community and renewable energy scheme—CARES—to provide joined-up support for renewable energy projects. Similarly, we work with the community broadband Scotland initiative. Such initiatives are policy priorities for the Scottish Government and are embedded in what we do through our partner organisations, which provide specialist expertise.

Johann Lamont: How can we be more proactive, for example in housing? It is not just about housing co-operatives taking over local council housing; housing co-operatives could address the challenges that are faced by young people who rent before they are ready to own a home. I do not know where such an initiative would come from now. Can the issue be looked at?

Sometimes co-operatives are defined out—they do not properly fit a definition—so they do not necessarily get access to support. Some of that is to do with the expertise of civil servants. Is that the kind of issue that you could look at in a review?

The Welsh Assembly Government has had a co-operatives and mutuals commission. Have you looked at that? Are there lessons for us, particularly to do with the points that were made about supporting land reform initiatives and ensuring that community empowerment becomes something real?

Sarah Deas: On your final point, we engaged with the Wales Co-operative Centre and worked closely with it to share learning and expertise. We had an input into the commission when it was taking evidence and we have an on-going relationship with it. There are benefits to be gained from learning together from the Scottish and Welsh perspectives.

Housing was explicitly excluded from the CDS remit when we were set up. That is an issue that needs to be considered outside this forum.

Nick Kuenssberg: Johann Lamont talked about community renewables schemes. Such schemes fit into the definition of social enterprise. Social Investment Scotland does a lot of work in the renewables sector, in partnership with other players. If there is a concern about where to go for funding, people should look to Social Investment Scotland.

When it happens, company failure usually happens pretty quickly. The one thing that we need when we are setting up an employee-ownership project is time. The process takes a lot of time and thought, which is a big distraction for a management that might be having to cope with market failure at the same time. The combination of the two is pretty dire.

Johann Lamont: It would annoy me if co-operatives were regarded as a place of last resort when nothing else has worked, because co-operatives can be important in rural areas and in urban areas where there has been a lack of regeneration to create opportunities for people. I understand what you are saying, but I think that something slightly different goes on when a community co-operative identifies need and a model to deliver what is needed, which the market would not provide.

Kelly McIntyre: We have been talking about market failure. In the context of employee ownership, a robust business model is incredibly important as is time. If a business is failing because it is not commercially viable, it might be considered in the community context because the same profit margins are not needed for a community enterprise to be successful in providing a vital service and community-led regeneration.

That is something to think about if community ownership is not the right option, or if a combination of approaches is an option. When vital services and vehicles for employment in communities are regarded as failing, it is often only because they are being assessed on their commercial viability and ability to make quite a large profit at some level. At a community scale, the profit margin does not have to be anywhere near as large, but the enterprise can have an amazing impact on the area, as well as on the industry.

On housing, we need to think about all the ways in which we can use the co-operative model to provide desperately important services. I know that we look at doing that through community co-operatives and community enterprises but there is also the community ownership support service, which also helps groups to make those transitions. It could look into how groups could transfer from a local authority but it could also help a group to do it on their own spontaneously. That might be worth considering. The service is funded by the Scottish Government.

Simon Fowler: The conversation about housing is quite topical. Some of you may have seen in the news this morning that a group called older women's co-housing—OWCH—has just set up its own social housing on the basis that 60 per cent of women who are 75 years old and over tend to be on their own, either because they have lived longer than their spouses or because they have been divorced. The group did not want to rely on the care home system; it wanted its own social housing so it set something up that is based on a social housing model.

The groups is part of a co-housing network that has three examples in Scotland—Vivarium in Fife, Pennington co-housing in Glasgow and Culdees eco-village in Perthshire—so the approach is already live in Scotland.

Nathalie Agnew: I will give an overview of some of the benefits that we have achieved from being a privately owned co-operative that could be applied to the housing sector or to any sector and might prevent market failure by encouraging people to work together more. Joan McAlpine was talking earlier about small and medium-sized enterprises in mainly rural areas. There are probably huge opportunities to go much further in supporting SMEs in particular to work together for the common good but from a for-profit point of view.

Some of the more measurable benefits that we have experienced include the economies of scale. The Wee Agency has three businesses under one roof sharing overheads, office space and some of our back-office functions. We work together on marketing and going out to win new business. That has brought hundreds of thousands of pounds of additional revenue into our businesses and helped us to create jobs in Scotland.

We have had great benefits from being a bigger team than our three smaller independent companies are individually. We have strengthened our board structure and now have a board of five very experienced people from different backgrounds and sectors.

From the client's point of view, previously a client might have had to bring in 10 different agencies to deliver a job that we can do under one roof, so we are also delivering efficiency. We have a lot of flexibility to look at the market, particularly around technology, and we make sure that we are always adapting.

There are also some less measurable benefits. Karen Pickering talked about winning business because her company is employee-owned. We have found the same thing being a co-operative. We have tendered for business and when people have chosen us, some of their feedback has been that they really like our ethos and the fact that we are bringing a number of strengths into one place. We are strong in three areas rather than being good at one thing and tagging on the other elements.

Our creativity and innovation have increased just by having a diverse range of people in the boardroom. Equally it can be a challenge as three businesses with quite headstrong people running them have to come together, co-operate and collaborate. However, we have worked that out and it all goes very well.

One challenge that we have found and that we are always working on is that, as a co-operative, we have two different priorities. You have your own business and you have the co-operative. We sometimes find it quite difficult to juggle the priorities and decide on the priority. However, we find that the time and other things that we invest into driving forward the Wee Agency all bring huge dividends, probably at a greater scale than if we were spending that time on our own businesses.

The Convener: Thank you.

Gordon MacDonald: I want to ask Andrew Pendleton whether there is any information about the average size or the ideal size of an employee-owned business. Putting John Lewis and its 90,000 employees to one side, is there another employee-owned business that is the same size as John Lewis in the UK? If not, why is that? Should the employee-owned business model be aimed more at companies such as Page\Park Architects with 52 employees or Scott & Fyfe with 100 employees? How does the model sit in the current economic climate?

11:45

Andrew Pendleton: Employee-owned firms are found in all size categories. The largest is John Lewis, as you rightly said. A small number of other large companies that are nothing like the scale of John Lewis are nevertheless substantial. Arup, for example, is 100 per cent trust-owned. Nevertheless, it is true that the bulk of such firms tend to be concentrated in the SME category and have up to 250 employees.

By and large, it is probably easier for smaller firms than for giant firms to organise a transition. I will give members some figures from the survey. The average number of employees of employee-owned firms that were created during business succession is around 80. The figure is 640 for those that were created during privatisation. However, I caution that there is a lot of diversity in those figures.

Gordon MacDonald: Is there any reason why there is not another business of the size of John Lewis using the model?

Andrew Pendleton: That is a big question. One can see that there would be profound difficulties in organising the transition of another large retail firm such as Sainsbury's, Tesco or whatever. The amount of capital that would have to be raised to buy out significant institutional investors would be quite a challenge.

A key issue is the view of the owner or owners. In the case of John Lewis, John Spedan Lewis had a clear idea about what he wanted to do, and he found the means to do it. The problem with most large firms—certainly listed firms—is that they have a large number of owners, and, potentially, a variety of objectives. We can see that trying to co-ordinate them to get together and go for employee ownership could be profoundly challenging.

Lewis Macdonald: I do not think that the Scottish Co-operative Society and the other co-operative societies have been mentioned at all this morning. Do any of those with an overview want to comment on where they fit into the bigger picture that we have talked about?

The Convener: Does Joanna Dewar Gibb want to come in?

Joanna Dewar Gibb: I do not want to jump over Lewis Macdonald's question. I was going to respond to what Andrew Pendleton said.

The Convener: Just come in with your point, and we will give others a chance to think about the co-op.

Joanna Dewar Gibb: I think that I am right in saying that, a long time ago in Scotland, another retailer had an employee share ownership scheme. That was the House of Fraser, which, I believe, set up quite an innovative scheme in the 1980s. I cannot remember the exact details, but I believe that the scheme came to an end through an internal decision that involved buying back all the shares and regaining all the control in a board. There might be something in that model of old that changed back to private ownership with no employee share stakes at all that could inform how we could change, adapt or move forward with the model in today's world.

Andrew Pendleton: Most of the major retailers, such as Tesco, Sainsbury's and Marks and Spencer, have employee share ownership schemes, but they account for a very small proportion of the total equity. Other retailers and wholesalers have substantial employee ownership, but they are nevertheless considerably smaller than John Lewis.

Johann Lamont: Although the Co-operative Group and Scotmid are retailers, they use the membership model, so they have democratic accountability. People can become a member of the Co-operative Group and become involved in that way. I am not sure what employee schemes it has. Obviously, it is a recognised co-operative, but of a slightly different kind.

Simon Fowler: There are probably two answers to the question about scale. The first is to do with time. The fact that John Lewis has been going for 150 years is part and parcel of our scale, which has grown over time. I do not see the lack of massive scale, such as 90,000 employees, as a limiter at all. The issue is probably just about time.

Secondly, I am trying to draw information from my memory banks on other employee-owned firms that are out there, and I know that CH2M, which is an engineering firm, has 25,000 employees. It is responsible for the crossrail contract in London and for other big schemes of that sort. That is just one of the big players that are out there. I do not want anyone to think that there is not scale already in operation. However, time is a key factor.

The Convener: I am conscious that we are getting towards the end of our time. To finish, I want to get views on public policy and what more can be done. We have had a good discussion and we have heard a lot about the advantages of the co-operative and employee-ownership models. In his submission, Andrew Pendleton talked a bit about policy changes at the UK level in the past few years under the coalition Government that pushed the agenda forward and made it easier to go down such a route. We have also heard a lot about Co-operative Development Scotland and the work that is being done through Scottish Government agencies to promote the approach. What more can or should we do through public policy to promote such ideas?

Andrew Pendleton: You refer to the 2014 legislation, which provides significant tax benefits if 50 per cent or more of a company is sold to an employee-ownership trust. The power of that is thought to be that, because it is such a great benefit, any professional adviser who was called in to advise on a business succession would be negligent if they did not mention it as a possibility to their client.

As for where we go next—I am sort of speaking from an English perspective here—although the policy framework is now very supportive, we need to develop further the infrastructure to provide support to enable conversions to take place. Scotland is instructive on that.

On the number of employee-owned firms, Scotland punches a little above its weight in the UK. I suspect that that is probably to do with the fact that Scottish Enterprise has an infrastructure to provide infrastructural advice, information, networking opportunities and so on. We have that in England in a more informal way through bodies such as the Employee Ownership Association and in parts of the employee-ownership sector, such as the mutual sector, where there has been a lot of infrastructural support. In general, the way forward is more infrastructural support from the Government to provide advice, networks and information.

Calum Currie: I have one point on policy. As I mentioned, we are looking at using the Community Empowerment (Scotland) Act 2015 to take over a piece of council land behind our harbour, which will allow us to provide services. When we approached Dumfries and Galloway Council and explained what we wanted to do, staff were not aware of whether a policy was in place for the act. The council then said that it would be some time before it could engage in the process.

That put a big stopper on any progress on planning for our project. However, to give the council its due, after further consultation, it has said that it will pass the land over to us. Basically, if we pay the legal fees, we can have it for less than best consideration. I highlight that the 2015 act is there, but the policy was not, and the guys in the council did not really know how to handle that. From our side of the fence, that was a bit bewildering.

I did not touch earlier on the fact that our organisation is not just about the harbour; it is about the whole village. The charitable objectives link into the social benefit to the village. We predict that, within about five years, we will start to have enough surplus to support our own infrastructure and other social needs in the village. The organisation also supports the local economy, and all the local businesses are behind us. Those businesses support employment in the area, so it all comes together. Our village is built round the harbour, which is one of the gateways to bring people into the village. Those are some of the model's overarching social benefits.

Kelly McIntyre: The 2015 act is exactly the measure that I want to mention. We are working with more than 55 groups to support them through the process of designing, exploring and issuing community share offers and creating community benefit societies to create tangible community-led regeneration, innovation and enterprise in Scotland. That is at the lower end of the scale. At the higher end, we have the employee-ownership model and the consortium models.

By the time the guidance on the act comes out and we have even more people coming through the pipeline, our programme will be coming to a close. Many other infrastructure support bodies will face a similar depth of need. We need to get things in place so that we know that support will be available to groups when it is most needed. It is needed now, but it will be needed even more when the guidance comes out in a year. Co-operative Development Scotland and other groups will be in the same situation as people start to explore how they can best use the new legislation that is available to them.

Sarah Deas: Given the market failure to raise awareness of co-operative models in all their forms, the committee might wish to consider how they are introduced in the education system. A small organisation called the Co-operative Education Trust Scotland has been working alongside schools to increase awareness and understanding of co-operative models. The committee might also wish to consider how the variety of models are presented to students as they transition into further or higher education and business schools.

The Convener: Does anyone else have a view on policy changes?

Simon Fowler: I support Andrew Pendleton's point about getting a level playing field for employee-owned businesses by ensuring that tax reliefs are in place for business owners that want to transition to 51 per cent employee ownership or more. Reliefs are also in place for employees who work in employee-owned businesses.

I mentioned awareness raising. On that point, I wonder whether I might hand round two documents to members to take away. They are a sort of plan on a page that might help you to understand what part of the sector is all about.

The Convener: That is fine—we can get those documents from you at the end.

As there are no other comments, this is a good point at which to bring the session to a close. On behalf of members, I thank all our witnesses for coming. The session has been extremely interesting and useful. We now need to consider where we will take the issue next.

11:58

Meeting continued in private until 12:20.

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